

**REPORT OF THE AUDIT OF THE
FORMER WASHINGTON COUNTY
CLERK**

**For The Period January 1, 2002
Through January 5, 2003**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER WASHINGTON COUNTY CLERK

For The Period January 1, 2002 Through January 5, 2003

The Auditor of Public Accounts has completed the former Washington County Clerk's audit for the period January 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$4,397 from the prior calendar year, resulting in excess fees of \$4,397 as of December 31, 2002. Revenues increased by \$142,336 from the prior year and disbursements increased by \$136,430.

Report Comment:

- The Former County Clerk Should Have A Written Agreement To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John A. Settles, Washington County Judge/Executive
Honorable A. H. Robertson, Former Washington County Clerk
Honorable Glenn Black, Washington County Clerk
Members of the Washington County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Washington County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the for the period January 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John A. Settles, Washington County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2003, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former County Clerk Should Have A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 21, 2003

WASHINGTON COUNTY
A. H. ROBERTSON, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

Receipts

State Grants	\$	10,085
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State Fees For Services		3,858
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Fiscal Court		18,871
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	288,630
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Usage Tax		783,189
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Tangible Personal Property Tax		654,523
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Licenses-

Fish and Game		1,801
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Marriage		3,450
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Deed Transfer Tax		29,187
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Delinquent Tax		37,893
		1,798,673

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	13,687
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Real Estate Mortgages		19,105
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Chattel Mortgages and Financing Statements		29,466
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All Other Recordings		10,382
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Charges for Other Services-

Candidate Filing Fees		1,360
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Copywork		642
		74,642

Other:

Notary Bond and Fee	\$	3,945
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Miscellaneous		1,446
		5,391

Interest Earned		927
		927

Total Receipts	\$	1,912,447
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The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
A. H. ROBERTSON, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Period January 1, 2002 Through January 5, 2003
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	228,359
Usage Tax		762,088
Tangible Personal Property Tax		260,637

Licenses, Taxes, and Fees-

Fish and Game		1,728
Delinquent Tax		5,810
Legal Process Tax		9,994
Candidate Filing Fees		620
	\$	1,269,236

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	39,020
Delinquent Tax		3,223
Deed Transfer Tax		27,699
		69,942

Payments to Other Districts:

Tangible Personal Property Tax	\$	326,190
Delinquent Tax		18,935
		345,125

Payments to Sheriff 540

Payments to County Attorney 5,631

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	85,991
Contract Labor		4,591

Employee Benefits-

Employer's Share Social Security		11,100
Employer's Paid Health Insurance		11,241

The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
A. H. ROBERTSON, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Period January 1, 2002 Through January 5, 2003
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Contracted Services-			
Fish and Game	\$	8,756	
Advertising		7	
Printing and Binding		13,447	
Materials and Supplies-			
Office Supplies		7,373	
Other Charges-			
Miscellaneous corrections bank charges		122	
Dues		350	
Conventions and travel		4,495	
Refunds		2	
Postage		4,142	
Capital Outlay-			
Office Equipment		<u>100</u>	<u>\$ 151,717</u>
Total Disbursements			<u>\$ 1,842,191</u>
Net Receipts			\$ 70,256
Less: Statutory Clerk Salary			<u>62,259</u>
Excess Fees			\$ 7,997
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for the Period January 1, 2002 Through January 5, 2003			\$ 4,397
Payments to County Treasurer - February 10, 2003			<u>4,397</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the period.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution pledged or provided sufficient collateral of \$1,000,000. However, the depository institution's board of directors or loan committee did not approve the pledge or provision of collateral, and the depository institution did not have a written agreement with the former County Clerk securing the former Clerk's interest in the collateral.

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$10,085. Funds totaling \$10,085 were expended during the period ended January 5, 2003. The unexpended grant balance was \$0 as of January 5, 2003.

Note 5. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

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COMMENT AND RECOMMENDATION

WASHINGTON COUNTY
A. H. ROBERTSON, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Period January 1, 2002 Through January 5, 2003

STATE LAWS AND REGULATIONS:

The Former County Clerk Should Have A Written Agreement To Protect Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of March 31, 2002, the former County Clerk had bank deposits of \$223,965; FDIC insurance of \$199,628; and collateral pledged or provided of \$24,337. Even though the County Clerk obtained sufficient collateral of \$24,337, there was no written agreement between the former County Clerk and the depository institution, signed by both parties, securing the former County Clerk's interest in the collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This comment is repeated from the prior year.

Former County Clerk's Response:

Was requested but bank would not comply. The incoming clerk is currently securing the agreement.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Washington County Clerk for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated February 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Washington County Clerk's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation.

- The Former County Clerk Should Have A Written Agreement To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Washington County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 21, 2003

